

CHAPTER VII

FIELD AUDIT

COMPONENTS

INTRODUCTION

COMPUTED MEASURES

PROGRAM REVIEW

INTRODUCTION

FIELD AUDIT

INTRODUCTION

The Field Audit operation examines employer records to assist employers in their effort to comply with State law and regulations and to determine if wages and taxes have been reported in accordance with the law and agency policies. The major tasks performed by the Field Audit function are:

- ! Select employers for audit
- ! Audit employer records
- ! Process and record all information (Account Maintenance)
- ! Handle appeals as appropriate

PRIMARY OBJECTIVE

The primary objective of the Field Audit function is to promote and verify employer compliance with State laws, regulations and policies. Successful completion of this objective may be accomplished through achievement of four sub-objectives:

1. Identify employer noncompliance (**Accuracy**)
2. Direct audit selection at noncompliance (**Accuracy**)
3. Maintain a defined level of audit production (**Completeness**)
4. Ensure that the Field Audits meet the key requirements of the Field Audit Function section of the ES Manual (**Completeness**)

Accuracy and Completeness To evaluate the achievement of Sub-objectives 1, 2, and 3, Computed Measures will be generated based on data routinely reported by SESAs. These data elements will be converted into three indicators by the TPS ADP system. Also the reviewer will conduct a Survey of Methods utilized by the SESA to identify employers for audit and to maintain audit production at a quality level.

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Completeness The effectiveness of Sub-objective 4 will be assessed through findings from a Program Review designed to measure SESA conformity to ETA audit policy as defined by the Employment Security Manual (ESM). A Program Review will assess how closely the SESA has followed ETA audit policy.

REVIEW METHODOLOGIES

Computed Measures

Computed measures will provide indicators for analysis of improper employer reporting and audit penetration by both number and size of employer. The three indicators which will be used are:

1. Percent of change in total wages resulting from audit
2. Percent of contributory employers audited
3. Percent of total wages audited. (Annualized)

Program Review

The Program Review to be conducted for Field Audit has two components - a Systems Review and an Acceptance Sample.

The Systems Review covers the following topics:

- ! Recorded Information and Instructions
- ! Training
- ! Recording of Transactions and Events

REVIEW METHODOLOGIES

Program Review cont.

- ! Systems to Assure Execution of Events
- ! Review of Completed Work

The Systems Review will be used to examine the controls and quality assurance systems known to be required for a quality field audit operation and to determine if the SESA has such controls. A SESA's utilization of these controls should result in a quality field audit operation.

The Acceptance Sample examines the following:

- ! Completed Audits

In conjunction with the Systems Review, an Acceptance Sample of completed field audits will be examined using the Field Audit Acceptance Sample Checklist. The Field Audit Acceptance Sample Checklist, containing questions on key audit policy requirements, will aid the reviewer in determining if the sampled audits conform to the requirements.

It is presumed that SESAs which do well on the Program Review (i.e., have an adequate system of internal controls and pass the Acceptance Sample) have a quality audit program.

Through the use of computed measures to assess productivity, and a Program Review to assess quality, TPS will gather data on what constitutes an effective audit program. TPS analysis of this data should indicate where SESAs may need to improve operations or be aware of vulnerabilities they may have in their program. TPS also intends to share exemplary practices with other SESAs that may benefit from the knowledge.

REVIEW METHODOLOGIES

Methods Survey

A Survey will be conducted to gather information on methods and practices dealing with field audit. It has four parts:

1. Audit unit structure
2. Inventory of auditor responsibilities
3. Methods to select employers for audit
4. Computerized audit programs

Information gathered from the survey may be used to identify the most effective field audit operating methods. For instance, the section on selection of employers for audit, when compared to the ratio of change audits may offer clues as to the best targeting methods.

This survey is non-evaluative and is intended to assist State administrators in their effort to promote and operate the audit program.

COMPUTED MEASURES

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COMPUTED MEASURES

COMPUTED MEASURES

Computed measures in the Field Audit function will provide for analysis of improper employer reporting and audit penetration by both number and size of employer. These measures will be generated by using data elements reported by SESAs through routine reports currently submitted.

Some SESAs accumulate the data elements required for the Field Audit measures through ADP systems. Other SESAs keep manual records. Either way it is important that accurate records be kept from the beginning. Upon implementation of the TPS program, the SESA TPS reviewer must ensure that the State ADP system captures these data elements as defined so that the National Office ADP system can produce accurate reports based on these data elements. The data needed will be automatically extracted from the system currently used to electronically transmit these reports from the SESAs to the National Office. Appendix B explains the technical process for gathering this information.

Field Audit Indicators. Three indicators have been developed for Field Audit:

1. Percent of change in total wages resulting from audit
2. Percent of contributory employers which are audited
3. Percent of total wages audited (Annualized)

Indicator 1 - Total Wage Change. The percent of change in total wages resulting from audit for a given calendar year.

Rationale. The objective is to encourage the search for misclassified workers and to assess whether SESAs are targeting their audits to maximize the discovery of improper employer reporting. The SESA will be able to compare results when changes in the audit selection parameters are made that accommodate the identified areas of noncompliance.

COMPUTED MEASURES

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COMPUTED MEASURES

To minimize differences among States in wage and salary levels, the audit change measure is being computed by taking the ratio of the audit-found change in total wages to the pre-audit total wages originally reported by the audited firms reviewed in a specified calendar year. (The numerator for the following formula includes total wages overreported (ETA 581 # 55) and total wages underreported (ETA 581 # 52). The denominator, total wages audited - pre-audit, is reported on the ETA 581 # 48.)

It should be noted that the absolute value of all changes (i.e., both underreported and overreported wage changes) will be used in the numerator. This is to ensure that all mistakes are valued in the indicator. Although net audit yield may be preferable from a cost-benefit standpoint, it does understate the extent of employer reporting errors, and the need to take remedial action to improve voluntary compliance.

Formula

$$\frac{\text{Total wages overreported (581 \#55) + total wages underreported(581 \#52)}}{\text{Total wages audited - Pre-Audit (581 \# 48)}}$$

Data Elements

The total wages underreported and the total wages overreported are the amounts of total wages reported in error by employers as discovered by audit. These amounts should be the same as currently reported on Form ETA 581 #55 and #52 respectively.

The denominator, total wages audited, is the pre-audit total wages originally reported by audited accounts. These amounts are reported on the Form ETA 581 # 48.

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COMPUTED MEASURES

COMPUTED MEASURES

Indicator 2- Employers Audited. The percent of contributory employers which are audited for the calendar year under review.

Rationale. This indicator reflects the percent of contributory employers which are audited for a specified calendar year. It is intended to provide a measure of SESA audit production. Because audits of employer records are an effective means of not only determining the extent of employer non-compliance, but also of ensuring employer compliance, it is important that SESAs perform such audits.

Audit production has been measured by the number of audits completed relative to the number of contributory employers (penetration rate) and judged against a desired level of achievement (DLA). The current formula of measuring audit production will be similar, but with a slightly different period of review. The desired percentage of contributory employers audited, will depend upon the performance enhancement indicator established by the SESA's annual plan of the audit program quality measure sub-objectives.

Formula

Number of audits completed during the four (581) report quarters
Number of Contributory Employers at end of the (581)report quarter
two quarters prior to the four quarters in which the audits were performed

Data Elements

Numerator - The number of audits completed during the four (ETA 581 # 46) report quarters is the total number of audits completed by the SESA during the specified four quarter period. This should be the same number as the sum of Form ETA 581 # 46 for the four quarters of a given calendar year.

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Denominator - The number of contributory employers at the end of the report quarter two quarters prior to the four quarters in which the audits were completed. The total number of known contributory employers for a given period should be the same number as Form ETA 581 #1 for the end of the quarter two quarters prior to the four quarters in which the audits were completed. In other words, this is the number of contributory employers at the end of September prior to the calendar year in which the audits were completed.

Indicator 3 - Wages Audited. The annualized percent of total wages audited for the calendar year under review.

Rationale. Because it is simpler and less time-consuming to audit small employers, a simple employer penetration rate measure encourages small employer audits. However, non-compliance among large employers may have a greater impact on the SESA's trust fund. To encourage audits of larger firms, TPS has an additional penetration measure: the percent of total wages audited.

The following formula gives a fairly precise estimate of annualized audit penetration of total wages using available data.

Formula

$$\frac{(\text{Total Wages Audited Post-Audit (\#49) for four (581) report quarters} / \text{Total Quarters Audited (\#47) for four (581) report quarters}) \times \text{Total number of Audits (\#46) for four (581) report quarters} \times 4 \text{ quarter}}{\text{Total Wages of Contributory Employers for prior four quarters (ES 202)}}$$

EQUALS (=) annualized percent (%) of total wages audited
(total wage penetration rate)

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COMPUTED MEASURES

Calendar year instead of fiscal year is used in this formula the same as for the employer penetration rate formula. This formula provides a measure of wage penetration based on average wages per quarter audited from which a comparison of audit production could be drawn.

Available data indicates that the average audit consists of slightly over four quarters. As a result the average audit contains wages of more than one calendar year. Averaging the quarters compensates for this fact and gets a comparable percentage of quarterly wage penetration. Multiplying it by four quarters in a year annualizes the audited payroll. Multiplying this result by the total number of audits in the year results in the numerator (annualized total payroll audited).

Dividing this numerator by a denominator of total wages of contributory employers for the target year expresses wage penetration as the annualized percent of total wages audited.

To further illustrate how this formula compensates for audits with wages outside the target year, see the example below:

Available data indicated that the SESA completed 1000 audits, covering 5000 quarters and \$10,000,000 gross payroll and total wages of contributory employers for prior year (ES 202) \$200,000,000.

If we apply the proposed wage penetration formula, it becomes easier to understand how the formula minimizes the effect of audited wages outside the target year. In this case the National Office would make the following calculation:

$$\frac{\$10,000,000}{5000} = \$2000 \text{ (average quarterly gross payroll audited)}$$

$$\$2,000 \times 4 \times 1000 \text{ audits} = \$8,000,000 \text{ (annual gross payroll audited)}$$

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$$\frac{\$8,000,000}{\text{Total wages of contributory employers for prior year (ES 202) } \$160,000,000} = 2\% \text{ penetration rate}$$

Since most of the audits will be of a given target year, the fact that some wages of other years may be included in some of the audited quarters will be minimized. The penetration figure resulting from the formula will be comparable from year to year and the impact of wages outside the target year will be diminished over time by this averaging. Inflation in the total wage picture will also help offset the effects of wages outside the target year. As wages in the numerator that are outside the target year would normally tend to suppress the denominator (i.e., the percent of wage penetration for the target year should be greater because the numerator is inflated by wages outside the target year), the suppression is offset by inflationary effects on the wages of the target year in the denominator. (i.e., wages tend to rise from year to year due to inflation and the inflated wages in the denominator divided into the less inflated non-target year wages in the numerator will lower the percent of wage penetration)

Data Elements

Numerator - For audited wages, the measure should be total wages-post audit per audited quarter, times the number of audits conducted. To analyze a year, the quarterly gross payroll audited for the calendar year should be divided by the numbers of quarters audited for the calendar year, then multiplied times 4 to annualize the data, then multiplied times the number of audits conducted for the calendar year.

Denominator - For total wages, the measure should be total wages per employer (ES 202 quarterly total wages for the prior four quarters).

Indicator - The indicator would be the ratio of annualized audited gross payroll to total wages for the year.

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COMPUTED MEASURES

COMPUTED MEASURES

Drawing Conclusions.

An analysis of the results of the Field Audit Computed Measures will reveal how well the SESA is managing its Field Audit program. Looking at trends of the three indicators can indicate the degree of "penetration" into both the number of employers and amount of total wages being audited and whether this "penetration" is productive in revealing the amount of misreported wages.

Findings or trends from these Computed Measures should be considered along with findings in the Systems Review and Acceptance Sample for evaluating the effectiveness of the SESA's Field Audit program and be included in the TPS Annual Report.

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

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FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW INTERVIEW SHEET

Function

Reviewer

Persons Interviewed		
Date	Name:	Title:

Documents Reviewed	
Title:	Form#:

SYSTEMS REVIEW

Recorded Information and Instructions

For Field Audit, the recorded information and instructions should include requirements for unemployment insurance coverage and procedures for conducting field audits. As a general rule, TPS will consider a SESA's recorded instructions to be current, accurate and complete if it contains, as a minimum, the requirements specified in the ESM as it appears in the appendix of this handbook and presents the State's unemployment insurance coverage rules. While ESM 3683 requires a formal Field Audit manual, this requirement may be met by handbooks, desk aids, computerized help screens, etc. that include the specified requirements.



The reviewer should examine recorded information and instructions available to employees involved with performing Field Audit functions. Compare the procedures to the laws and written policies of the SESA.

In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no recorded instructions, describe in the narrative how personnel know the laws and written policies and procedures to perform their assigned tasks.

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PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Are the SESA's recorded instructions:

Yes No

- a. Current? ____ ____
b. Accurate? ____ ____
c. Complete? ____ ____
d. Readily available to staff? ____ ____

2. Does the SESA have recorded instructions to assist the auditor in understanding the Field Audit requirements of the (ESM) in sufficient detail to properly complete a Field Audit?

Yes____ No____

If yes, do the instructions explain to the auditor how to perform the following:

Yes No

- a. How to complete a pre-audit discussion and who should be involved in the discussion? ____ ____
b. How to verify the existence of the business? ____ ____
c. How to verify the ownership of the business? ____ ____
d. How to perform tests to verify the accuracy and completeness of reported payroll and how to record the findings? ____ ____

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SYSTEMS REVIEW QUESTIONS

- | | | <u>Yes</u> | <u>No</u> |
|----|--|------------|-----------|
| e. | How to perform tests to search for misclassified workers and hidden wages and how to record the findings? | ___ | ___ |
| f. | How to determine the minimum number of consecutive calendar quarters necessary to constitute an audit and how to record in the audit when the minimum or tolerance guidelines are disregarded? | ___ | ___ |
| g. | How to conduct a post-audit discussion and who should be involved in the discussion? | ___ | ___ |
| h. | How to resolve the collection of the debt incurred by the audit? | ___ | ___ |
| i. | How to properly prepare adjustment reports and the routing of the adjustment reports when the audit resulted in change? | ___ | ___ |

VS:(Questions 1 and 2)

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

3. If any of the preceding evaluative questions are answered "no", does the SESA have a substitute or compensating control?

Yes ____ No ____ N/A ____

If Yes, describe in the Narrative Section following these questions.

VS: (Question 3)

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PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
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Question Number	Answers to "if yes, describe", and "Other":
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_____	_____
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FIELD AUDIT

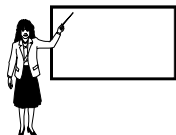
PROGRAM REVIEW

SYSTEMS REVIEW

Training

New employees need to learn the requirements for unemployment insurance coverage and the procedures for conducting field audits. Existing employees benefit from periodic refresher courses and need additional training when changes occur, and when quality defects or a significant number of errors appear in a particular area.

The reviewer should become familiar with methods and systems used to identify and meet field audit training needs.



In the narrative section following the questions, explain "other" responses and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no training programs, describe in the narrative how personnel know the laws and written policies and procedures to perform their assigned tasks.

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the SESA have methods or procedures to provide training for newly hired employees?

Yes ___ No ___

*If yes, identify the type of training:

Yes No

- a. *Formal Classroom Training? ___ ___
b. *On the Job Training? ___ ___
c. *One-on-One Training? ___ ___
d. *Individual Self-guided Training? ___ ___
e. *Other? ___ ___

Describe the type and frequency of training in the narrative.

2. Does the SESA have methods or procedures to provide refresher training for experienced employees?

Yes ___ No ___

*If yes, identify the type of training:

Yes No

- a. *Formal Classroom (e.g., refresher courses)? ___ ___
b. *On the Job Training? ___ ___
c. *One-on-One Training? ___ ___
d. *Individual Self-guided Training? ___ ___
e. *Other? ___ ___

Describe the type and frequency of training in the narrative.

SYSTEMS REVIEW QUESTIONS

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3. Does the SESA provide training when there are:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. State law changes?.....	___	___	
b. Policy/procedure changes?.....	___	___	
c. Needs identified from review of finished work (e.g., supervision, quality assurance review)?.....	___	___	___
d. Hardware/software changes?.....	___	___	
e. *Other?.....	___	___	

4. Does the SESA have processes (e.g., back-up training or organizational flexibility) to assure that staff absences will not disrupt operations?

Yes ___ No ___

If yes, describe in the narrative.

VS: (Questions 1-4)

5. *Does the SESA provide training to acquaint new employees with the mission, goals and function of the UI program?

Yes ___ No ___

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. *Is someone assigned the responsibility to determine the effectiveness of the training provided by the SESA?
Yes ___ No ___
7. *In the opinion of the supervisor or manager, does the training meet the needs of the Field Audit function? (e.g., are sufficient resources available--training packages, facilities, staff, etc.)
Yes ___ No ___
8. If any of the preceding evaluative questions were answered "No", does the SESA have a substitute or compensating control?
Yes ___ No ___ N/A ___

If Yes, describe in the Narrative Section following these questions.

VS: (Question 8)

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SYSTEMS REVIEW NARRATIVE

Question Explanation Of "N/A" and "Compensating Controls"
Number (when deemed necessary)

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Question
Number Answers to "if yes, describe", and "other":

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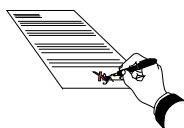
FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW

Recording of Transactions and Events

The SESA should have procedures and controls to assure that at a minimum, completion of the basic requirements of a Field Audit are recorded in the completed audit. It is reasonable to assume that events of a completed audit should be sufficiently documented to enable persons such as supervisors, reviewers or subsequent auditors to understand the reason for the audit and to understand the audit procedure, findings and conclusions. It is also reasonable to assume that if these procedures or internal controls are in place, the audits have an increased probability of being of acceptable quality.



An effective audit should document the major steps entailed, such as pre-audit interview, and tests of the employer's payroll records, and tests to search for misclassified workers and hidden wages. Documentation in the form of work paper(s) for each test should contain the test performed, employer name and account number, and the period under review. These instructions are to be considered as a minimum and each SESA should develop their own work paper format and their respective method for organizing the work papers. It can take the shape of a check list of actions taken or a description in narrative form.

In the section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section.

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the SESA have a method to assure that Field Audit findings and conclusions can be traced to their information sources?
Yes ___ No ___

2. Can the following be identified through the audit trail:

Yes No

 - a. The name and title of employer or designated representative involved in pre-audit discussion? ___ ___
 - b. How the auditor verified the existence of the business? ___ ___
 - c. How the auditor verified the ownership of the business? ___ ___
 - d. The tests performed to verify the accuracy and completeness of reported payroll? ___ ___
 - e. The employer records that were examined to search for misclassified workers and hidden wage? ___ ___
 - f. That four consecutive calendar quarters were audited or that an acceptable explanation was provided? ___ ___
 - g. The name, title, and telephone number of employer or an identified designated representative involved in the post-audit discussion? ___ ___

SYSTEMS REVIEW QUESTIONS

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Yes No N/A

- h. When the audit resulted in the employer owing additional tax, that the auditor either collected it or provided an acceptable explanation why the monies were not collected? (If the SESA policy does not require the auditor to attempt collection, answer "N/A" to the question.)
- i. The adjustment reports prepared and submitted (when an audit results in a change)?

3. Are Field Audit support documents retained and accessible for SESA use?

Yes No

4. Are the Field Audit completion date and results retained and accessible for SESA use?

Yes No

VS: (Questions 1 - 4)

5. If any of the preceding evaluative questions were answered "no", does the SESA have a substitute or compensating control?

Yes No N/A

If yes, describe in the "Narrative" section following these questions.

VS:(Question 5)

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SYSTEMS REVIEW NARRATIVE

Question

Number

Explanation Of "N/A" and "Compensating Controls"
(when deemed necessary)

Question

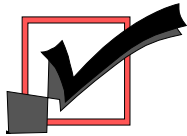
Number

Answers to "if yes, describe", and "other":

SYSTEMS REVIEW

Systems to Assure Execution of Events

A central or district office control system for assigning and monitoring field audit assignments serves as a management tool. It provides the SESA with a means of monitoring the number of audit assignments, to whom the assignments are made, the state of work in progress, the completion of audit assignments and if they were completed timely. It also gives the SESA control over certain requirements for audit assignments such as four quarter scope and any criteria for audit selection the SESA may use.



The reviewer should become familiar with the systems used by the SESA for completing field audits.

In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no internal controls or safeguards, describe how it assures accurate and timely completion of work.

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the SESA have a control system for assigning and monitoring field audit assignments?

Yes ___ No ___

- a. If yes, does the control system:

Yes No

- (1). Indicate the issue date of the assignment? ___ ___
- (2). Identify the office/individual receiving
the assignment? ___ ___
- (3). Indicate the actual assignment completion
date? ___ ___

- b. If yes, (to question 1 above), is the control system:

- (1).* Automated? ___
- (2).* Located in the central office? ___
- (3).* Located in a district/regional office? ___
- (4).* Located elsewhere? (Describe in narrative) ___

VS: (Question 1)

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

2. *Are individual auditors allowed to select employer accounts to audit and/or convert non-audit assignments into audits?

Yes ___ No ___

If yes, does the SESA:

- a. Have standards to determine whether an auditor may select an employer account to audit and/or convert non-audit assignments into audits?

Yes ___ No ___

- b. Require that the auditor's reason for selecting an employer account for audit and/or converting non-audit assignments into audits, be recorded in the audit report?

Yes ___ No ___

3. Does the SESA have a system or procedure to assure that audit results (i.e., adjustments, changes, corrections, etc. to the employer's account file) are properly prepared?

Yes ___ No ___

VS: (Question 2 and 3)

—

4. *Following the completion of the audit, are employers contacted concerning the conduct of the audit?

Yes ___ No ___

If yes, describe the procedure in the narrative. If correspondence is used, obtain a sample if possible.

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. If any of the preceding evaluative questions were answered "no", does the SESA have a substitute or compensating control?

Yes ___ No ___ N/A ___

If yes, describe in the "Narrative" section following these questions.

VS:(Question 5)

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SYSTEMS REVIEW NARRATIVE

Question
Number

Explanation Of "N/A" and "Compensating Controls"
(when deemed necessary)

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Question
Number

Answers to "if yes, describe", and "other":

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_____	_____
_____	_____

FIELD AUDIT

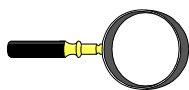
PROGRAM REVIEW

SYSTEMS REVIEW

Review of Completed Work

Ongoing supervisory review to ensure the quality of individual audits improves the quality of the entire Field Audit function. The review process may vary from reviewing all audits without exception to random sampling of audits in order to detect problem areas. The review may also take the form of a periodic statewide review which measures the quality of the overall audit program. Utilization of these review processes helps the SESA meet the requirement of ESM 3691.

A system of post-audit verification also helps management assess the audit program by providing a method of feedback from audited employers on how the audit was conducted. Other feedback systems on quality trends may provide information to field audit supervisors with which they could compare audit quality between their office and other offices in the SESA.



At a minimum, field audits should be reviewed to assure they meet the requirements as set forth in the Field Audit section of the ESM. As well as meeting the ESM requirements, field audits should be reviewed to assure they meet the minimum level of documentation as defined in the section on Recorded Instructions.

In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there is no review of completed audits, describe how the SESA ensures that accurate and complete field audits are being conducted.

For staff members involved in processing Field Audit documents, are the following components subject to some form of systematic review? **For Yes** answers, indicate the approximate percentage, **if known**, of work reviewed. If review is performed but the percentage is unknown, enter a "Y" in the appropriate column(s). For Yes answers, also enter "Y" in column 6. If there are no reviews, answer "N" for No in column 6. Column 6 is the only evaluative question.

Component	Type of review					
	*1 Supv %/Y	*2 Peer %/Y	*3 QR (Qual. Rev.) %/Y	*4 Support (Clerical) %/Y	*5 Other %/Y	6 Review Conducted? Y/N
a. That a pre-audit discussion was held?						
b. That the existence of the business was verified?						
c. That the ownership of the business was verified?						
d. That payroll record tests were performed?						
e. That a search for hidden wages was made?						
f. That 4 consecutive calendar quarters were audited?						
g. That a post-audit discussion was held?						
h. That money was collected or an explanation was documented?						
i. That adjustments were properly prepared?						

VS: (Question 6)

* Informational

**ET HANDBOOK NO. 407
TAX PERFORMANCE SYSTEM**

CHAPTER SEVEN

FIELD AUDIT

PROGRAM REVIEW

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. Is a periodic statewide review of completed field audits performed to ensure uniform quality throughout the SESA?

Yes, all audits ____ Yes, ____% of audits No ____

VS: (Question 7)

8. * If field audits are reviewed, is a different review procedure used for large employers or other special audits?

Yes ____ No ____
N/A ____

If yes, describe the review procedure in the narrative section following these questions.

9. * Are field audit supervisors informed about quality trends between their offices and other offices within the SESA?

Yes ____ No ____

10. If any of the preceding evaluative questions were answered "no", does the SESA have a substitute or compensating control?

Yes ____ No ____ N/A ____

If yes, describe in the "Narrative" section following these questions.

VS: (Question 10)

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TAX PERFORMANCE SYSTEM

CHAPTER SEVEN

FIELD AUDIT

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
--------------------	---

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Question Number	Answers to "if yes, describe", and "other":
--------------------	---

_____	_____
_____	_____
_____	_____

ACCEPTANCE SAMPLES

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

<i>Purpose/Intent</i>	!	To assess the degree to which completed audits meet the requirements of the Employment Security Manual.
	!	To assess the accuracy of posting audit results in the SESA's employer records.
<i>Scope</i>	!	The scope of the review will focus on audits completed in the first, second and third quarters of a calendar year.
<i>Universe</i>	!	There is one universe to be identified for the Field Audit Acceptance Sample:
	1.	All audits completed on Contributory Employers in the first, second and third quarters of the calendar year.
	2.	60 completed audits will be selected.
<i>Timing/Frequency</i>	!	The samples will be selected once per calendar year.
	!	The population of transactions will be identified after the end of the third quarter.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

- ! The following describes the steps to be taken to build the universe for the samples:
 1. Identify all contributory employers audited in the first three quarters of the calendar year. These should be the same employer accounts that are being reported as audits on the ETA 581, Item 46.
 2. Select a sample of 60 cases.
 3. The sample should be selected after the third quarter ends.

- ! Appendix A describes what action needs to be taken for sampling in both manual and automated systems.
- ! If the system is automated, the Reviewer must work closely with the ADP unit to ensure a thorough understanding of what, when and how the samples should be selected.

Reviewing Samples

- ! Assemble the following information for each of the completed audits selected for review.
 1. The complete audit report.
 2. The supporting documentation.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

***Reviewing Samples
cont.***

3. Any adjustment forms needed due to changes resulting from the audit.
4. The account information on the SESA's computer files.

Drawing Conclusions

!

Using this information, answer the questions on the Acceptance Sample Questionnaire for each audit selected.

1. A pass/fail question has been added to the Acceptance Sample Questionnaire. "Was this assignment correctly identified as an audit in conformity with ETA audit policy as defined in the Employment Security Manual?" A "No" answer will fail the entire case. By answering no, the rest of the questions in the Acceptance Sample Questionnaire would not need to be answered. Note that cases failing under this criteria are a potentially serious problem as the data being reported on the ETA 581, item 46 is skewed. These failures will need to be written up as part of the findings of the Annual Report.
- 2 a. A score of 80 points or more on the nine (9) acceptance sample questions is required for a case to pass.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions Cont.

- b. If any of the cases score less than 80 points, it means that the reviewer must conclude that the audit is not an acceptable audit for this review.
- c. Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude, that quality in the SESA's audits cannot be confirmed.
- ! For all unacceptable cases, the reviewer must provide an explanation for the unacceptable case on the Acceptance Sample Explanation Sheet.

Documentation

- ! All source documentation (gathered to review samples) must be kept until the completion and Regional Office approval of the Annual Report. Either hard copy documentation or (in some highly automated systems) the ability to recreate the identical information used in the review must be maintained.

NOTE: For each of the 60 Audit cases both a review of adherence to ESM requirements and (if the audit resulted in any change or adjustment to the information on the employer's account), a review of posting accuracy must be completed. It is important to verify that the posting of field audit adjustments is accurate in order to ensure the SESA is processing the information provided by the field audit unit. The purpose of TPS is not to find fault with any particular unit, but to identify strengths and weaknesses within a system regardless of what unit is responsible for the execution of the process.

ACCEPTANCE SAMPLE INSTRUCTIONS

FIELD AUDIT

PROGRAM REVIEW

For each case that passes the initial question of "Is this an Audit?", all Acceptance Sample questions must be answered, even for those cases where it is apparent early in the review that the case will not have sufficient points to pass. This is necessary to pinpoint any other areas of weakness regarding the quality of the SESA field audit program.

Furthermore, for question 5 in the Acceptance Sample, if no records or partial records are maintained by the employer, the auditor must document that in the report. The audit is not to fail simply because the employer does not maintain all of the records listed in question 5. Such an audit would only fail if the auditor did not document that necessary records were not maintained.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

Pass/Fail Initial Question

Prior to answering the Acceptance Sample Questionnaire to award points for the quality of the audit, the case should be reviewed to ascertain that it was correctly identified as an audit in conformity with ETA audit policy as defined in the Employment Security Manual (ESM). (Pass/Fail)

RATIONALE: The ESM defines a field audit as well as identifying the scope. Some cases will not meet the criteria to be included in the Audit Universe (e.g., Assignments issued to resolve report and money delinquency, blocked claims and status assignments should not be routinely converted or expanded to audits). In all instances the cases will need to be reviewed to ascertain if they meet the criteria of an audit.

DOCUMENTATION: If the completed audit was a converted or expanded assignment issued to resolve report and/or money delinquency, blocked claim(s) or status issue it must contain documentation to identify the problem and/or conditions, not apparent when the assignment was made, that warrant the expansion or conversion of the assignment to include an audit.

After determining the case passes the initial question of "Is this an Audit?", the following Acceptance Sample Questions will be used to assess the quality of the audits.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

The following questions assess the quality of completed Field Audits. For each question, a score and a rationale are given. The "Documentation" section presents examples of acceptable documentation to confirm that a particular audit activity has been performed. Work papers can range from checklists of actions taken and documents reviewed to a narrative by the auditor. The total score for a case of acceptable quality is 80.

1. **A pre-audit discussion concerning the purpose of the audit must be held with the employer or an identified designated representative. (10 points)**

RATIONALE: A preliminary discussion must be held with the employer or an identified designated representative, in which the purpose of the visit and any pre-audit questions are discussed. At a minimum, the owner, a partner, or a corporate officer should be advised in person, by telephone or letter that an audit is to be performed and have the opportunity for a meeting.

DOCUMENTATION: The completed audit must record the name and title of the individual involved in discussion. If the employer designated a representative, record the name and title of the designated representative, and also record the name and title of the employer who designated the representative.

2. **An acceptable explanation will be given as to how the auditor verified the existence of the business. (5 points)**

RATIONALE: Conducting the audit at the employer's place of business is the best way to verify its existence. Otherwise, the business entity must be verified in accordance with SESA audit procedures to ensure it is a bona fide operating establishment and not part of a fictitious employer scheme.

DOCUMENTATION: The completed audit must contain documentation of an on site visit, personal knowledge of the business, or other sources of verification in accordance with State audit procedures (e.g., business license, business advertisement in yellow pages).

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

- 3. An acceptable explanation must be given as to how the auditor verified the ownership of the business. (5 points)**

RATIONALE: The current status of the business must be verified each time an audit is performed. If there has been a change of which the SESA was not aware, information on the change must be reported by the auditor in accordance with the SESA's policies and procedures.

DOCUMENTATION: The completed audit must contain confirmation that the auditor examined documents regarding partnership agreement, articles of incorporation, corporate charter, income tax returns and their findings (the type of income tax returns should be identified - e.g., 1120S - Sub-Chapter S Corporation, 1040-Schedule C - Individual Ownership, 1065 - Partnership, 1120 - Corporation), business license, verification with the Secretary of State, or other sources of verification in accordance with State audit procedures.

- 4. Tests of employer's payroll records must be performed to verify the accuracy and completeness of reported payroll. (25 points)**

RATIONALE: To establish that the auditor can rely on payroll data reported to the SESA, a minimum of 4 tests are required. 1) The accuracy and completeness of the employer's payroll posting system(s) should be verified to establish that the auditor can rely upon payroll data reported to the State Agency. 2) Reconciliations of total payroll to total wages, 3) computation of total taxable payroll, and 4) reconciliation of verified total taxable payroll to total taxable wages on the UI contribution report are performed as an essential check on the accuracy of reported wages.

DOCUMENTATION: The reviewer must confirm that all four tests were conducted, and that each test was documented with evidence to support the conclusions drawn.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

The four tests and their required documentation are described below:

a. Verification of the payroll posting system(s).

There are two acceptable methods for verification of the payroll posting system(s).

Provide documentation showing that the audit verified the gross payroll by adding all of the individual gross wages from a source document (e.g., check stubs, cash disbursements journal, check register, etc.) for the quarter and compared that to the gross wages reported on the SESA's records. (Documentation may be in the form of an annotated calculator tape showing quarter or year and source document. The comparison may be annual or by quarter.)

or

Provide documentation showing that the auditor traced transactions of at least one employee's wages from source document(s) through to the employers copy of the quarterly contribution and wage report. If the auditor is supplied with detailed wage information from SESA records prior to conducting the audit, then the auditor must trace the wage data of the individual through to the SESA's records.

Work paper(s) for each individual traced, must contain the record examined, name, SSN, amount of pay and dates of payments, and total wages. (Documentation may be in the form of an annotated calculator tape, copies of documents, work papers.)

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

b. Reconciliation of total payroll to total wages.

Work paper(s) must show that the auditor compared a payroll record (which was established as correct through verification of the payroll posting system(s)) to the total wages on the employer's copy of the UI contribution report, and to the amount posted to the SESA's records. Payroll records could be in the form of W-2s, payroll summaries, individual earnings records, payroll journals or ledgers. The comparison may be annual or by quarter. If discrepancies are identified which cannot be explained, the auditor will perform a quarterly analysis.

Work paper(s) for the reconciliation must include identity of the payroll record examined, calculation of total payroll, and an explanation of variances/differences.

c. Computation of total taxable payroll.

Work paper(s) must include the identity of the payroll record used in the calculation and also record the calculations to verify the total taxable payroll.

d. Reconciliation of total taxable payroll to total reported taxable wages.

The reconciliation can be performed by comparing the verified total taxable payroll figure arrived at in Test C to total taxable wages recorded on the employer's copy of the UI contribution report, and to the amount posted to the SESA's records. The comparison may be annual or by quarter. If discrepancies are identified which cannot be explained, the auditor must perform a quarterly analysis.

Work paper(s) for the reconciliation, must contain summary calculations and an explanation of variances/differences.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

5. Other employer records must be examined to search for misclassified workers and hidden wages. (25 points)

RATIONALE: Misclassified workers and hidden wages are the most significant areas of noncompliance among registered employers. Auditors must examine all appropriate documents or records of original entry as are available or maintained by employer to determine whether non-wage payments to acknowledged employees were properly classified and whether persons not in covered employment who received payments for services were properly classified. TPS has divided employer records into four types that will be examined for the discovery of hidden wages or misclassified workers. If no records or partial records are maintained by the employer, the auditor must document that in the report. The audit is not to be penalized when the employer does not maintain all of the records described on the next page.

The auditor must examine the nature and extent of the employer's business to identify and resolve any issues of noncompliance. The nature of the business may identify a type of business with a historical pattern of noncompliance. In this case, the nature of the business may alert the auditor to perform a detailed investigation of specific accounting records.

Likewise, the extent of the business may indicate multi-state employment, and may require that the auditor's investigation ensure the employer reported employees to the appropriate State.

DOCUMENTATION: There are, at a minimum, four types of employer records that must be examined. Each should be considered as a separate source of potential information. Included in the completed audit file should be auditor-prepared documentation that is the principal record of the four separate examinations for this test. The documentation must present the evidence discovered through the test.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

a. The essential test which must be conducted and its required documentation is described below. If the records deemed essential/necessary to conduct the audit are kept by the employer they must be examined by the auditor. If no records or partial records are maintained by the employer, the auditor must document that in the report. There are at a minimum four types of employer records that must be examined (i.e., contract labor, cash disbursements, detailed general ledger and miscellaneous reports and accounts). The audit is not to be penalized when the employer does not maintain all of the records described below.

- (1) Examination of the records of contract labor. These records include, but are not limited to: 1099s MISC and 1096 summaries, and master vendor files.
- (2) Examination of the cash disbursements. These records include, but are not limited to: cash disbursements journal, petty cash journal, check register and canceled checks/check stubs.
- (3) Examination of the detailed general ledger and, if available, any directories of subsidiary ledgers such as a chart of accounts which may lead to other sources of misclassified workers and hidden wages.
- (4) Examination of miscellaneous reports and accounts. These records include, but are not limited to: State tax returns, federal income tax returns, financial statements, corporate minutes and records, and federal adjustment reports.

b. Potential outcomes of the test are (1) no suspicion of additional wages, (2) suspicion of additional wages, and (3) payment(s) of wages not previously identified. If, through one or more of the tests performed, wages are suspected or found, the audit papers must contain such information.

ACCEPTANCE SAMPLE RATIONALE

FIELD AUDIT

PROGRAM REVIEW

- (1) For Part I (examination of records of contract labor): If there is no suspicion (payment not suspected to be wages) or the payment was identified and examined elsewhere in the audit, documentation should contain classification of categories of payment (e.g., 1099s MISC, and/or 1096, and/or master vendor files) and a brief description of why there was no suspicion of misclassified workers and/or hidden wages.

For Parts (2), (3), and (4): If there is no suspicion (payment not suspected to be wages) or the payment was identified and examined elsewhere in the audit, the documentation will contain a checklist or summary statement of accounts reviewed and findings.

- (2) If, initially, wages were suspected, but payment was subsequently not found to be wages, documentation will contain the number of individuals, the labor categories examined which turned out to be exempt or non-subject, explanation of evidence that payments do not constitute wages, and conclusions.
- (3) If payment to individual(s) was found to constitute wages, work paper(s) for each individual found must contain the audit period, name of payee, total quarterly amount, explanation of evidence that payments were wages, and findings. Also acceptable is a summary statement that the suspect amount was found and can be traced to a specified account, referencing another work paper. Adjustment reports can be used as part of the supporting documentation when the reviewer can trace each individual discovered to the resulting increases and decreases in total wages and taxable wages. Adjustment reports must be supported by narrative or other documented sources before they can be used as part of the supporting evidence to wage changes.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

6. The audit must cover four consecutive calendar quarters or an acceptable explanation must be provided. (5 points)

RATIONALE: To preserve the integrity of the audit program and to enhance the capability of the auditor to verify taxable wages, the scope of the audit must be at least four consecutive calendar quarters. A tolerance level for error in reporting taxable wages and/or tax must have been established by the SESA as a guide for justification in extending an audit beyond the four quarter scope. A SESA may establish reasons other than monetary for expanding an audit in which case the auditor will record the reason in the audit report.

DOCUMENTATION: When the auditor elects to extend the audit, the audit file must contain an explanation for the expansion which conforms to the SESA's tolerance level guidelines. If the auditor elects to disregard the established tolerance guidelines, an explanation will be given in the audit report. When the audit is less than four quarters, the completed audit file must also contain an explanation.

7. A post-audit discussion concerning the results of the audit must be held with the employer or an identified designated representative. (10 points)

RATIONALE: Upon completion of the audit, a meeting must be held to discuss the audit findings and conclusions. Any discrepancies or issues of non-compliance must be discussed with the employer or designated representative who has authority to make changes in the organization's reporting procedures. This is also a time when the auditor must inform employers of their rights and responsibilities regarding the audit. If the auditor does not follow this procedure, an acceptable explanation must be given.

DOCUMENTATION: The completed audit must contain the name, title, and telephone number of the individual involved in the post-audit discussion.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

8. If the audit resulted in the employer owing additional tax, the auditor either must collect it or provide an acceptable explanation why the collection was not accomplished. (5 points)

RATIONALE: The auditor must contact a person authorized to make payment for the business being audited and attempt to obtain payment of all contributions found to be due as a result of the audit. If the auditor is unable to collect, an explanation must be provided in the audit report.

If the audit under review is a no-change audit and question 8 is not applicable, the reviewer will answer the question "NA" and the points will be awarded as though the question had been answered "Yes". If the audit is a change audit resulting in additional tax due and SESA policy does not require the auditor to attempt collection, the reviewer will answer question 8 as "NA" and system will award the points. However, record of such SESA policy must be documented and contained in the TPS systems review narrative.

DOCUMENTATION: The completed audit file must record the amount collected. If the auditor does not collect the balance due, an explanation as to why the collection was not accomplished must be recorded in the completed audit file.

9. If discrepancies or unreported wages and tax were found, adjustments must be made in accordance with the completed audit. If the audit is being appealed, adjustment reports must be made in accordance with the completed audit. (10 points)

RATIONALE: Establishing a system to ensure the proper accounting of audit results is an important component of a SESA's tax operation. The SESA has a fundamental obligation to guarantee the accuracy of the posting to ensure the employer is given the correct tax rate; subsequent billings are correct and that the collection unit is provided with timely information to process indisputable legal documents.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE RATIONALE

By assessing the accuracy of the posting of Field Audit adjustments, the reviewer will have sufficient information to confirm the existence of a system which assures that audit results are properly posted. If discrepancies are found, the reviewer will note this in the Annual Report.

If the audit under review is a no-change audit and question 9 is not applicable, the reviewer will answer the question "NA" and the points will be awarded as though the question had been answered "Yes".

DOCUMENTATION: Adjustments to employer's account, quarter and year, total wages, taxable wages, and tax/contribution due, resulting from the completed audit must be posted accurately.

In addition, if the audit is being appealed and actual posting is not made, the completed audit file must contain a copy of the adjustment forms when prepared manually. The form(s) must record title of report, the audit period, name and account number of employer, and findings.

If computer-assisted, a printout of the adjustments which includes the audit period, name of employer, and findings will be sufficient documentation.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

The initial question Pass/Fail, must be a Pass, before the audit needs to be reviewed on Questions 1 thru 9. (For details, see the Initial Question Rationale)

If answers to Questions 1 thru 9 are not documented in the completed audit file, then the answers to those questions must be "No." (For details on the level of required documentation, see Acceptance Sample Rationales.)

Pass/Fail Was the assignment correctly identified as an audit in conformity with the ETA audit policy as defined in the ESM?

Pass ___ Fail ___

1. Was a pre-audit discussion, concerning the purpose of the audit, held with the employer or an identified designated representative? *(Was the name and title of the employer or designated representative documented? If a representative was designated, was the name and title of the designator documented?) (10 points)*
Yes ___ No ___

2. Was an acceptable explanation documented as to how the auditor verified the existence of the business? *(e.g., audit performed at the employer's place of business, partnership agreement, personal knowledge, business license, telephone directory, etc.) (5 points)*
Yes ___ No ___

3. Was an acceptable explanation documented as to how the auditor verified the ownership of the business? *(e.g., partnership agreements, articles of incorporation, corporation charter, income tax returns, business license, verification with Secretary of State) (5 points)*
Yes ___ No ___

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

4. Does the audit contain documentation to show that the following four payroll record tests were performed: (25 points)
- a. Verification of gross payroll posting system? Yes ___ No ___
- b. Reconciliation of total payroll to total wages? Yes ___ No ___
- c. Computation of total taxable payroll? Yes ___ No ___
- d. Reconciliation of total taxable payroll to total reported taxable wages? Yes ___ No ___

Note: You must answer "Yes" to a, b, c and d to score 25 points.

5. Does the audit documentation indicate: (a) that the following employer records, if available, were examined to search for misclassified workers and hidden wages, and (b) the findings from the examinations conducted in the audit? (25 points)
- a. Were the following employer records, if available, examined:
- (1) Records of contract labor
- (2) Cash disbursements
- (3) Detailed general ledger
- (4) Miscellaneous reports and accounts
- Yes ___ No ___

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

- b. Did the audit contain the findings from the records examined:
- (1) If payment was not suspected to be wages or was examined elsewhere in the audit, the audit must contain a checklist or summary statement of accounts reviewed and findings.
 - (2) If payment was suspected, but found not to be wages, the audit must contain the number of individuals examined, labor categories examined, and explanation of evidence that payment does not constitute wages.
 - (3) If payment was found to be wages, the audit must contain for each individual: the amount paid, name of payee, total quarterly amount, explanation of evidence and findings. A summary statement that can be traced to specific accounts, referencing other work papers can also be used. Adjustment reports can act as supporting documents if each individual discovered can be traced to the resulting changes in wages.

Yes ___ No ___

Note: You must answer "Yes" to both a. and b. to score 25 points.

6. Were four consecutive calendar quarters audited or was an acceptable explanation documented when the audit is less than four quarters or expanded beyond four quarters? (5 points)

Yes ___ No ___

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

7. Was a post-audit discussion concerning the results of the audit held with the employer or an identified designated representative, and documented in the field audit? *(The name, title, and telephone number of the individual involved should be recorded.) (10 points)*

Yes ___ No ___

8. If the audit resulted in the employer owing additional tax, did the auditor either collect it and record the amount collected or document an acceptable explanation why the collection was not accomplished? *(5 points)*

Yes ___ No ___ N/A ___

9. If discrepancies or unreported wages and tax were found or a credit is established, was the adjustment (monetary or non-monetary) posted in accordance with the SESA requirements. If the audit is under appeal, adjustment reports should be made in accordance with SESA policy.) *(10 points)*

Yes ___ No ___ N/A ___

TAX PERFORMANCE SYSTEM
Field Audit Sample Coding Sheet

SESA: _____ Period Covered: _____ Date: _____ Reviewer: _____

Sample Type: ☐ Acceptance ☐ Expanded

Case Number	Employer Identification Number	Is this an audit? Pass/Fail	1 (10)	2 (5)	3 (5)	4 (25)	5 (25)	6 (5)	7 (10)	8 (5)	9 (10)	Total Points

Scoring Analysis

- ☐ Audits passing the initial "Is this an audit" are subject to scoring
- ☐ Audits scoring 80 or more points are acceptable.

Total Acceptable _____ of _____

Page _____ of _____

*TAX PERFORMANCE SYSTEM
Field Audit
Sample Explanation Sheet*

SESA: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

Sample Type: ☐ *Acceptance* ☐ *Expanded*

<i>Case Number</i>	<i>Employer Identification Number</i>	<i>Explanation</i>

METHODS SURVEY

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

This survey gathers information on the methods and procedures used to operate the field audit program. All questions on the Survey Checklist are non-evaluative. A short section on SESA demographics has been added to assist SESAs in identifying agencies operating similar programs.

Period Covered By The Survey. The Survey can be initiated at any time of the year, and the period to be covered by the survey is the four completed calendar quarters immediately preceding the date of the review.

Definition Of Terms. The "Glossary Of TAX PERFORMANCE SYSTEM (TPS) Terms" located in the Appendix of this document, should be referred to for definitions.

Additional Information. Reviewers/SESAs should not hesitate to provide additional information regarding procedures and/or systems not specifically addressed in the Survey that have been found to be effective. In addition, SESAs may add more detail to the information they provide if it will assist in their own self evaluation efforts.

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

SESA DEMOGRAPHICS

- A. Number of contributory employers _____
- B. Major industry codes (SIC) _____
(use broad categories) 1. _____
2. _____
3. _____
4. _____
5. _____
- C. Number of field auditors _____
- D. Average size of payroll audited _____
(gross wages)

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

PART I. AUDIT UNIT STRUCTURE

1. What is the ratio of field audit supervisors to auditors? _____

2. Audit section reports to: (e.g. UI Director, Tax Chief)

3. Are auditors assigned to work certain geographic areas?

Yes ___ No ___

If yes, are they:

Yes No

a. Based in central office

b. Based in regional offices

c. Based in local offices

d. Other, please describe

4. If auditors are based in local or regional offices, are they supervised by non-tax personnel in those offices?

Yes ___ No ___ N/A ___

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

5. Do you have a separate large employer audit group?

Yes ___ No ___

If yes do they:

	Yes		No	
a. Audit large employers only	___	___	___	___
b. Perform other tasks	___	___	___	___
c. Travel out-of-state	___	___	___	___
d. Other, please explain	___	___	___	___

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

PART II. INVENTORY OF AUDITOR RESPONSIBILITIES

A. DUTIES AND WORKLOAD CONTROLS

1. Do your field auditors perform duties other than auditing?

Yes ___ No ___

If yes, indicate the types of activities and the approximate percentage of time spent on each, if the percentage is unknown leave the % line blank.

	Yes	No	%
a. Auditing	___	___	___
b. Collections	___	___	___
c. Blocked claims	___	___	___
d. Status Investigations	___	___	___
e. Report delinquencies	___	___	___
f. Educational outreach	___	___	___
g. Other, please explain	___	___	___

2. What is the average monthly audit quota per auditor? _____

3. How does the SESA control/distribute the auditor workload?

	Yes	No	
a. By number of employer accounts	___	___	
b. By number of cases assigned	___	___	___
c. By zip code	___	___	
d. Other, please explain	___	___	

FIELD AUDIT

METHODS SURVEY

METHODS SURVEY

4. If an employer, selected for audit, refuses to provide all or part of the necessary records to satisfy the audit requirements, do you:

	Yes	No
a. Subpoena the records	___	___
b. Summary assess	___	___
c. Adjust reported figures	___	___
d. Cancel	___	___
e. Tickler for follow-up	___	___
f. Other, please explain	___	___

B. AUDIT EXPANSION

1. Would the presence of strong or weak internal controls in the employer's accounting system affect your test for accuracy of the employer's records?

Yes ___ No ___

If yes, please explain your procedures for documentation:

2. Does the SESA have established tolerance guidelines to expand the audit beyond four quarters?

**ET HANDBOOK NO. 407
TAX PERFORMANCE SYSTEM**

CHAPTER SEVEN

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Yes ___ No ___

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If yes, describe the parameters for the total wages, taxable wages, contribution due and any other tolerance guidelines the SESA uses.

If no, describe how audit expansion is monitored.

3. Does the SESA have established guidelines for converting other assignments to audits?

Yes ___ No ___

4. Who has the decision making authority to convert an assignment to an audit?

	Yes	No
a. Auditor	___	___
b. Audit supervisor	___	___
c. Central office	___	___
d. Other, please explain	___	___

5. Are your auditors authorized to:

	Yes	No
a. Collect tax due on audits	___	___
b. File liens	___	___
c. Make payment agreements	___	___
d. Make initial liability/status	___	___

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decisions

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C. APPEALS OF AUDIT DECISIONS

1. Are auditors required to represent the SESA at appeal hearings in which they were involved with the initial determination?

Yes ____ No ____ N/A ____

2. Are appellate decisions published and made available to the SESA auditors and tax staff?

Yes ____ No ____

3. How are cases under appeal, that affect adjustments or audit results, tracked?

Yes No

- a. Tickler file

- b. Follow-up referral

- c. Other please explain

4. Who is responsible for the tracking of these cases?

Yes No

- a. Auditor

- b. Audit supervisor

- c. Audit unit support staff

- d. Regional/district office

- e. Central office

- f. Other, please explain

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PART III. METHODS TO SELECT EMPLOYERS FOR AUDIT

1. Does the SESA exclude any employer (other than reimbursable or governmental entities) from the audit selection process?

Yes ____ No ____

If yes, indicate which of the following are excluded:

	Yes	No	N/A
a. Non-profit (501(c)(3))	____	____	
b. Domestic employers	____	____	
c. Schools	____	____	
d. Recently audited employers	____	____	
e. Out-of-state records	____	____	
f. Uncooperative employers	____	____	
g. Out-of-business employers	____	____	
h. Large employers	____	____	
i. 0.0 contribution rate	____	____	____
j. Bankruptcy pending	____	____	
k. Appeals hearing pending	____	____	
l. Newly liable < 2 years	____	____	
m. Other	____	____	

If yes, describe the excluded employer(s).

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2. Does the SESA use any of the following criteria to select employers for audit?
If yes, please indicate the approximate percentage (%) of completed audits attributable to each criterion, if unknown leave blank.

	Yes	No	%
a. Type of business activity/SIC	___	___	___
b. Employing unit's payroll size	___	___	___
c. High tax rate	___	___	___
d. Benefit/wage ratios	___	___	___
e. Debit reserve account balance	___	___	___
f. History of noncompliance	___	___	___
g. Highly fluctuating reported total wages	___	___	___
h. Previously audited employers with excessive differences	___	___	___
i. Anonymous tips	___	___	___
j. Newly registered employers	___	___	___
k. Appeal decisions	___	___	___
l. FUTA cross match	___	___	___
m. History of blocked claims	___	___	___
n. Other criteria	___	___	___

If yes, identify procedures used to select specific employers.

3. Are the audit results accumulated and analyzed to determine the effectiveness of your selection process?

Yes ___ No ___

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4. Does the SESA exchange audit results and/or leads with the following agencies:

	No	Yes Results	Yes Leads
a. IRS	___	___	___
b. State Dept of Revenue	___	___	___
c. Workers Compensation	___	___	___
d. Other agencies	___	___	___

5. Does the SESA conduct audits for other agencies?

Yes ___ No ___

PART IV. COMPUTERIZED AUDIT PROGRAMS

A. AUDIT PROGRAM AND SOFTWARE

1. Does the SESA have an automated audit program for completion of audits?

Yes ___ No ___

If yes, complete the balance of section IV.

2. Does the SESA require mandatory usage of the automated audit program?

Yes ___ No ___

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3. What type of audits are being performed with your automated program? If yes, indicate the approximate percentage (%), if unknown leave blank.

	Yes	No	%
a. All audits	—	—	—
b. Large audits	—	—	—
c. Other, please explain	—	—	—

4. What is the scope of your current automated program?

	Yes	No
a. Forms completion	—	—
b. Word processing narrative	—	—
c. Calculations	—	—
d. Downloading information	—	—
e. Uploading information	—	—
f. Online capabilities	—	—
g. Other, please explain	—	—

5. How was this system designed/developed?

	Yes	No
a. In-house staff	—	—
b. Customized/outside contractor	—	—
c. Purchased software package	—	—
d. Other, please explain	—	—

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6. What computer software package/language is the program written in?

7. What operating software does your SESA's audit section use for its computers, (desktop and laptop)?

B. HARDWARE

1. What hardware is the SESA using for it's automated program(s)?

a. Desktop computers Yes ____ No ____

If yes, describe: (Specify model, processing speed, hard drive capacity etc. of all hardware and general opinion of effectiveness, advantages and disadvantages)

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b. Laptop computers Yes ____ No ____

If yes, describe: (Specify model, processing speed, hard drive capacity etc. of all hardware and general opinion of effectiveness, advantages and disadvantages)

c. LAN (Local Area Network) Yes ____ No ____

If yes, describe: (Specify model, processing speed, hard drive capacity etc. of all hardware and general opinion of effectiveness, advantages and disadvantages)

2. Are your computers shared by more than one auditor?

Yes ____ No ____

a. If yes, indicate the approximate ratio of auditor to computer:

1. Desktop computers _____

2. Laptop computers _____

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- b. If the SESA has an effective way to avoid or deal with problems of shared equipment, please explain:

C. ELECTRONIC DATA INTERFACE (EDI)

1. Has your SESA developed an audit program for auditing an employer with an Electronic Data Interface (EDI) system?

Yes ____ No ____

If yes, answer questions 2-4.

2. Has the SESA developed programming that allows auditors to interface with the employer's computer system to view or download information?

Yes ____ No ____

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3. What records does the SESA require when conducting an audit of an employer who only maintains electronic records?

		Yes	No
a.	Paper copies generated	—	—
b.	Archived electronic data	—	—
c.	Flow charts or other documentation of computer programs	—	—
d.	Access by SESA's computer program, (e.g., EDDCAS, SAS etc.) to employer's computer system	—	—
e.	Other, please describe	—	—

4. What is the structure of the audit group assigned to do audits of EDI employers?

		Yes	No
a.	Individual auditor/s	—	—
b.	Audit team/s	—	—
c.	Other, please explain	—	—

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